

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

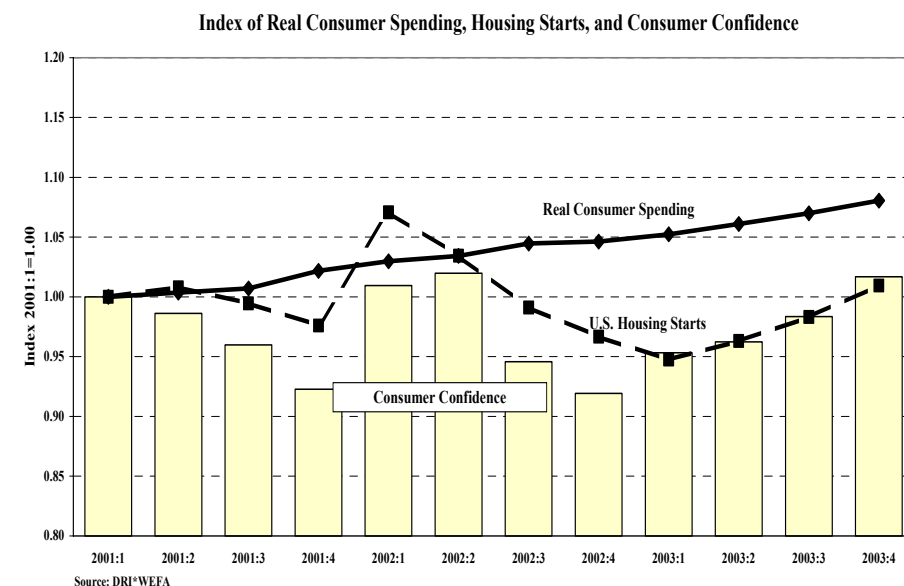
DIVISION OF FINANCIAL MANAGEMENT

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Almost everyone agrees that when its history is finally written, the recent recession will be one of the mildest on record. History will also point out two major reasons why it was so mild: the consumer and the housing sectors. Traditionally, these two sectors are hit hard during a slowdown. However, the consumer sector displayed incredible resilience and the housing sector actually flourished during the recent recession. Indeed, real consumer spending continued to expand during the recent recession. Housing activity defied economic logic and achieved record levels. Given the important roles these two sectors have played in dampening the negative impacts of the recession, it's worthwhile to see how they will perform in the near future.

A chief concern is consumers will grow weary of waiting for the economy to pick up speed. The recent slide in consumer confidence suggests this may already be occurring. Consumer confidence defied economic gravity during and after the recession. However, it has turned south. It is nearly impossible to pinpoint what factors turned consumers squeamish. It may have been the battered stock market. Or it could have been the sluggish job environment. Perhaps it was the rash of corporate scandals. There is no shortage of reasons why consumers are less optimistic at the end of this year than they were at its beginning.

To be sure, falling consumer confidence is a concern, but it may not be as serious a problem as in the past for several reasons. First, although consumer confidence may be on the rocks, it has not had a huge impact on consumer spending. Second, consumers feel better about current



conditions compared to future conditions. Third, consumers often feel more confident in their personal financial situation compared to the aggregate economy. This is not to say future consumer spending will be without challenges. Sluggish recoveries in employment and wage income, along with households' need to rebuild savings after stock market losses, should limit the upside of spending growth. However, they should not be severe enough to derail the recovery.

The housing sector has been the other pillar supporting the economy. For example, sales of existing and new homes combined rose 4.9% in July 2002. This occurred despite falling consumer confidence, a soft labor market, and slow wage growth. There are several reasons why the housing sector has fared so well. Most obvious has been the decline in mortgage interest rates to record lows. Banks loosened their borrowing requirements and this facilitated home ownership. Soaring prices in some locales made housing a desirable investment, especially compared to the

declining stock market. Higher prices also forced many "fence sitters" to purchase homes before they were priced out of the market. As a result of these factors, U.S. housing starts rose to 1.60 million units in 2001 and are expected to rise to 1.64 million units this year.

While 2002 housing starts should post a slight gain over 2001, it needs to be pointed out that all of the increase took place in the beginning of this year. U.S. housing starts have actually been trending downward since the first quarter of 2002. The outlook calls for further softening, with housing starts falling below 1.6 million units for the first time since 2000. This forecast reflects the influence of several factors including rising mortgage interest rates, banks tightening their lending standards, and housing prices coming under downward pressure. Despite these factors, the housing sector is not expected to collapse. Instead, it should retreat gradually from extremely high levels.

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## General Fund Update

As of September 30, 2002

Revenue Source	\$ Millions		
	FY03 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	890.9	188.9	191.2
Corporate Income tax	81.8	19.6	26.9
Sales Tax	673.2	175.7	186.7
Product Taxes <sup>1</sup>	21.6	5.8	5.7
Miscellaneous	99.9	23.0	23.5
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>1,767.4</b>	<b>413.0</b>	<b>433.9</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of August 2002

General Fund revenue registered its third consecutive month of gains in September, coming in \$12.8 million higher than expected for the month. This puts cumulative FY 2003 General Fund collections \$20.9 million ahead of the predicted amount for the fiscal year to date. Over half of this year-to-date excess is due to strong sales tax collections. Corporate income tax collections account for over one-third of this year's positive revenue results.

Individual income tax revenue was \$1.2 million higher than expected in September, bringing year to date collections \$2.3 million above expectations. Withholding collections were \$0.5 million lower than expected in September, but are \$0.2 million higher than expected on a year-to-date basis. Filing payments were \$2.3 million higher than expected in September, and are \$3.4

million higher than expected for the fiscal year to date. Refund payouts were \$0.6 million higher than expected in September and are \$2.7 million higher than expected for the year to date.

Corporate income tax revenue was \$7.1 million higher than expected in September, and now stands \$7.3 million ahead of the year-to-date predicted amount. For the month, filing payments were \$3.3 million higher than expected, quarterly estimated payments were \$4.5 million higher than expected, and refunds were \$0.6 million higher than expected. On a year-to-date basis the strongest component is filing payments, which are \$5.6 million higher than expected. Quarterly estimated payments are a more modest \$2.5 million ahead of expectations. Refunds are \$0.8

million higher than expected for the year to date.

Sales tax revenue was \$4.2 million higher than expected in September, making it the third consecutive month for better than expected sales tax performance. This revenue category is now \$11 million higher than predicted for the fiscal year to date, and accounts for over half of the current General Fund excess. Exceptionally strong motor vehicle sales in Idaho appear to account for much of the gain in sales tax so far this fiscal year.

Product tax revenue was \$0.1 million lower than expected in September. Miscellaneous revenues were ahead by \$0.5 million, with strength in interest earnings, insurance premium tax, and alcoholic beverage licenses more than offsetting modest weakness in the estate tax.